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¶1. (U) Summary. This is Volume 8, issue 48 of U.S. Embassy Pretoria's South Africa Economic News Weekly Newsletter.

Topics of this week's newsletter are:

- South Africa's Growth "Lowest in a Decade"
- Liquidations Increase
- Regional Integration Critical to Africa's Economic Competitiveness
- Shippers Reroute Fleets to Cape of Good Hope; Pirates Might Help South African Economy
- SAA to Launch Johannesburg-Buenos Aires Route
- Cape Town Faces a Long, Slow Summer
- Voice and Data Carriers Free at Last to Build Their Own Networks
- Telecom Advisory Firm to Invest in South Africa
- Eskom and the Economic Dimness
- Regulator Still Waiting for Eskom's Tariff Request
- A Passes New Mine Safety Bill
- DEAT Targets Acquisition of CDM Regulatory Authority

End Summary.

South Africa's Growth "Lowest in a Decade"

¶2. (U) South Africa's economic growth rate slowed from an upwardly revised 5.1% growth in the second quarter of 2008 to 0.2% in the third quarter on a seasonally adjusted and annualized basis. The third quarter figure was the lowest in a decade. A Reuters poll of economists last week forecast the economy growing by an annualized 0.3% in the third quarter. On an unadjusted basis, South Africa's economy grew by 2.9% compared to the third quarter of 2007, against forecasts of 3.0%. Economists said the slower growth is an indication that the economy is under significant strain. Efficient Group Economist Lorett Els said, "The economic driver, from the expenditure side, is the consumer, and it shows that consumers have been under a lot of strain and so has business confidence. It signals that we are in for a period of significantly slower growth, and we could perhaps see a quarter of negative growth." (Reuters & I-Net Bridge, November 25, 2008)

Liquidations Increase

¶3. (U) Statistics South Africa (StatsSA) data showed the total number of liquidations increased from 328 in September to 348 in October, with year-on-year (y/y) growth in liquidations rising to 21.7%. The latest liquidations figures are just another source of evidence that the real economy in SA is responding noticeably to tighter monetary policy. The SA Reserve Bank is increasingly mindful of the strain that firms and individuals are under, and the inflation and third-quarter 2008 gross domestic product (GDP) numbers are likely to strengthen the argument for reducing interest rates sooner rather than later. However, the most worrying aspect is the depreciating rand, which is likely to keep inflationary pressures elevated. (News24, November 26, 2008)?

Regional Integration Critical to Africa's
Economic Competitiveness

¶4. (U) Africa could benefit a great deal through intraregional trade because it would allow the continent easier access to enter global markets and improve its competitiveness said Lesotho's Deputy Prime Minister Lesao Lehohla this week. Lehohla spoke at the Africa Investment Forum 2008 held on November 25 in a Johannesburg suburb.
QInvestment Forum 2008 held on November 25 in a Johannesburg suburb.
Lehohla noted that African states have realized the need for economic integration, as demonstrated by the tripartite summit held by the Southern African Development Community, the East African Community and the Common Market for Eastern and Southern Africa in October. African governments should make regional integration a priority as a "fundamental step" for these economies to enter global markets, Lehohla said. He asserted that the continent's economies

must adopt liberalized strategies and policies to maintain an environment conducive to facilitating trade and investment. Lehohla suggested that African countries eliminate all barriers to trade and "harmonize trade and investment policies" while also "exploring their comparative advantages" to improve the attractiveness of the continent as a regional investment destination and a powerful trading bloc. African countries must integrate their transport systems to reduce costs, he insisted, because the cost of transporting products to the export market often exceeds 50% or more of overall production costs in certain African countries. Transnet Group official Vuyo Kahla agreed that a regional approach is required to build economies of scale. South African ports could play a role as a regional hub for sub-Saharan Africa and as an alternative trade route between Asia and South America, Kahla believes. Meanwhile, East African Business Council vice-chairperson Keli Kiilu announced preliminary plans to construct a rail system between East and Central African countries in an effort to integrate transportation systems. The first phase of the project, which would connect Mombasa, Kampala, Kigali, and Bujumbara would cost between $5-billion and $8.5-billion to develop. Another two phases would be considered at a later stage, depending on the success of the first phase. (Engineering News, November 26, 2008)

Shippers Reroute Fleets to Cape of Good Hope;
Pirates Might Help South African Economy

¶5. (U) The world's largest shipping company announced its oil tankers will make a major detour to avoid the pirate-plagued waters off the Somali coast. Maersk's decision to reroute its 50-strong fleet of tankers via the Cape of Good Hope is likely to cause the embattled company further pain, but may be a boon to South African port cities, especially because the threat of piracy is causing other shippers to follow suit. Taiwan shipping company TMT said this week it is re-routing 20 oil tankers via the same Cape of Good Hope route. Cape Town Harbor Master Ravi Naicker said the Port of Cape Town is ready to handle an increase in the number of ships expected to refuel in Cape Town to avoid the pirate-infested waters

of the Horn of Africa. Naicker said the ports of Durban, Port Elizabeth and Richards Bay might also see an increase in the number of ships that require bunker fuel. Cape Town has 61 bunkering points supplying marine fuel oil, gas oil, and blended fuels. It takes about 12 hours for a ship to refuel and up to 36 hours if the ship also needs repairs. Transnet operates two dry docks, a repair quay and a synchrolift. There were 14 piracy incidents reported worldwide in the past week, most of them in the Gulf of Aden. (Business Day, November 24 and 26, 2008)?

SAA to Launch Johannesburg-Buenos Aires Route

¶6. (U) South African Airways (SAA) will launch a new route to Buenos Aires, Argentina SAA officials announced this week. Twice-weekly flights on the route between Johannesburg and Buenos Aires begin in Qflights on the route between Johannesburg and Buenos Aires begin in April 2008. SAA plans to add a third service in July 2009. SAA already provides daily South American service to Sco Paulo in Brazil. SAA CEO Ngqula says SAA has experienced strong demand on its Sco Paulo route, which is currently the airline's only South American destination. The Buenos Aires route would build on the success of this route and allow SAA to facilitate Southern Hemisphere traffic flows. According to Ngqula, SAA is negotiating with Lan Chile and Aeromexico to broaden its service to and from the Americas. The Buenos Aires route is SAA's first new route following the airline's restructuring. Ngqula says SAA will emerge from its restructuring in March 2009 and is now in a position to think about growth for SAA's future. (Engineering News, November 26, 2008)

Cape Town Faces a Long, Slow Summer

¶7. (U) Cape Town is likely to have its slowest summer holiday season in many years as a growing number of tourists, both domestic and international, opt to stay at home. The city relies heavily on the busy summer season when many international travelers flock to the tip of Africa to escape the Northern Hemisphere winter. But in this year of financial crisis few visitors are making the trip. Southern

Sun Hotels Director of Sales and Marketing Neil Fraser said, "There is definite evidence of a slowdown in the inbound leisure business. All the major tour operators are reporting a drop in forward business." One hotel manager observed that hotel occupancy is way down from this time last year, and commented that people are making last-minute bookings instead of committing early to vacation plans. ArabellaStarwood Hotels & Resorts SA Sales and Marketing Director Gary Plourde concurred, saying, "The market slowdown has caused booking trends to be unpredictable. Unexpected cancellations have been replaced with unexpected short-lead bookings. This makes forecasting very difficult... it puts added pressure on everyone in the industry." It is not only the hotels that are feeling the pain. Comair, the operator of British Airways and kulula.com, has recorded an overall dip in traffic to Cape Town of nearly 10% for both airlines compared with this time last year. (Business Day, November 26, 2008)

Voice and Data Carriers Free at Last to
Build Their Own Networks

¶8. (U) ALTECH's landmark high court victory winning liberalization for the telecommunications sector will stand. Communications Minister Ivy Matsepe-Casaburri decided not to escalate the issue to the Supreme Court of Appeal. The Minister's capitulation means Altech and about 300 other voice and data carriers can build their own network infrastructure with no further risk of their investment being legally challenged. The industry has already celebrated its long-awaited freedom from having to lease networks from a few dominant operators in the market, but there was a risk Matsepe-Casaburri would continue to fight to protect her unpopular policy of managed liberalization. The threat dissolved on November

21 with a statement that she would drop the case "in the interest of the information and communications technologies sector." Matsepe-Casaburri's position had been that only she could authorize the Independent Communications Authority of SA (ICASA) to grant permission to build telecommunications networks. But the high court upheld Altech's belief that companies already licensed to provide value-added network services could automatically convert that into the new variety of license created by the Electronic Communications Act. (Business Day, November 21, 2008)

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Telecom Advisory Firm to Invest in South Africa
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¶9. (U) Dubai-based telecommunications advisory firm Delta Partners (DP) seeks to invest in South Africa by launching a R825 million ($80 million) equity fund. DP expects to invest in one or two South African companies before turning its attention to the rest of Africa. The typical deal would be worth between $5 million and $15 million. DP Managing Partner Kristoff Puelinckx said that DP plans to invest in different types of companies, which could include cable layers or infrastructure suppliers," and the companies might range between "established telecoms players, new industry entrants, Qbetween "established telecoms players, new industry entrants, alternative telecom operators and industry suppliers that have proven track-records, solid business models and existing cash flows." Puelinckx said there was an unprecedented amount of development taking place that would increase Africa's bandwidth substantially over the next five to 10 years. "With the continued liberalization of the local and regional telecoms markets, more players are expected to enter this market, giving rise to increased competition and more affordable access to communications technology for businesses and consumers," he said. DP is the largest telecommunications advisory and investment firm in Africa and the Middle East. It operates in 25 countries, and its regional headquarters is in Johannesburg. (Business Day, November 26, 2008)

Eskom and the Economic Dimness

¶10. (U) A Business Day Senior Associate Editor wondered this week why Eskom continues to bemoan tight reserve margins and asks users to save power when the drooping economy has caused the demand for electricity to drop. ArcelorMittal has cut steel prices 25-30% and slashed its production by one-third as demand dries up. At its peak, the company was drawing 660 megawatts (MW) and was saving about 10% after the January power crisis. Now its power consumption

is about 60% of what it used to be. Other steel makers and commodity producers have also cut power usage, but Eskom argues that the savings are insignificant and do not relieve it of the pressure to produce power. Gold and other large industrial and commercial customers have not cut back, say Eskom officials. Total cutbacks amount to only enough savings to counter the effect of the unplanned shut down of one of its Koeberg nuclear power units outside of Cape Town. Power stations are operating harder than they should have to in order to meet demand, so unplanned outages are a problem. Further, Eskom plans maintenance for this time of year, so up to 10% of its capacity can be out at any given time. The woefully low reserve margin makes Eskom's system especially vulnerable to spikes in demand and dips in supply. Observers wonder how the economic downturn might affect the reserve margin in the near future and Eskom's build program in over the long haul. Eskom devised its huge new build program based on the now overly ambitious growth rate of 6%, so the demand slump can give Eskom a breather, but only after it brings online the two new mega coal-fired plants of Medupi and Kusile. Eskom is pursuing a tender for a new nuclear power plant, but the multiple nuclear power stations the government had in mind are now on the back burner. And the slowdown should open the space for South Africa to debate what it can afford in the way of new power capacity and how to phase it in. But, if South Africa had the choice, it surely would have opted for stronger economic growth and a tighter electricity market. (Business Day, November 25, 2008)

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Regulator Still Waiting for Eskom's Tariff Request
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¶11. (U) The South African cabinet approved the so-called electricity pricing policy (EPP) at its meeting November 19, which had been designed to provide a framework for the determination of electricity prices. The policy is reported to have emerged from consultation with stakeholders. Meanwhile, National Energy Regulator of South Africa (NERSA) is still eagerly awaiting Eskom's tariff adjustment application under the so-called multi-year price determination (MYPD 2), intended to run from April 2009 until the end of March 2012. Eskom has asked for more time given the changing global economic climate. Eskom spokesman Fani Zulu said the delay was not an attempt to reduce the time available for public consultation. NERSA granted a 27% tariff hike in June of this year, which was short of the 53% hike requested by Eskom. In making its determination, NERSA indicated that price increases of between 20 and 25% would probably have to be introduced over the next few years. This would effectively result in a near doubling of the average tariff to 5 U.S. cents per kilowatt hour (kwh), from the current level of 2.5 U.S. cents per kwh. Eskom has justified increases in tariffs as helping to underpin its ambitious capital expansion program, but it is now reviewing its tariff plans in light of consumer complaints and global financial turmoil. (Engineering News, Business Report, Qand global financial turmoil. (Engineering News, Business Report, November 20, 2008)

South Africa Passes New Mine Safety Bill

¶11. (U) South Africa's parliament passed new mine safety laws which enforce stricter penalties and hold mine CEOs criminally liable for deaths in some of the world's deepest mines. The mining industry, represented by the Chamber of Mines, has criticized as "too punitive" laws which would make provision for heavier penalties to be levied against companies. The Chamber has also questioned the insertion of a criminal liability clause allowing chief executives and managers to be prosecuted should they be found guilty of causing serious injury or deaths. The new laws, which must still be signed by President Mothlanthe before becoming effective, also made provision for mine accident investigations to be held within ten days and a report completed within 30 days. South Africa experienced 221 mine deaths in 2007 and the government began temporarily shutting down mining operations after fatal accidents, further reducing output in an industry already suffering the effects of an ongoing power crisis. (Mining Weekly, November 21, 2008)

DEAT Targets Acquisition of
CDM Regulatory Authority

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¶12. (U) The Minister of Environmental Affairs and Tourism Marthinus van Schalkwyk announced that South Africa's Designated National Authority (DNA), which oversees the registration process of Clean Development Mechanism (CDM) projects in South Africa, could be transferred to the Department of Environmental Affairs and Tourism (DEAT). CDM projects allow industrial countries with greenhouse gas reduction commitments to invest in projects that reduce emissions in developing countries as an alternative to reducing emissions in their own countries. South Africa lags far behind other developing countries like China, India and Brazil in the registration of CDM projects, and critics say South Africa is losing out on an environmentally friendly way to create additional revenue streams. Officials from the National Business Initiative (NBI) agree the CDM process may be improved by the move to the DEAT. NBI CEO Andre Fourie said, "We must streamline the CDM process, because we are struggling with that, and the bureaucracy is killing us." To date, Only 14 CDM projects are registered in South Africa by companies such as Sasol, Omnia, PetroSA, Corobrick, PPC, and the City of Cape Town. (Engineering News, November 21-27, 2008)